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COMPTROLLER GENERAL OF THE UNITED STATES
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APRIL 17, 1984

The Honorable Ralph Regula
The Honorable Norman Mineta
The Honorable Leon F. Panetta
The Honorable Ed Rethune
House of Representatives



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Subject: Biennial Budgeting: Summary of the
Major Issues GAO/OACG-84-4

This report is in response to your request that GAO study the feasibility and advisability of lengthening the budget cycle to a 2-year period. As part of that study, you requested that we look at state experience with biennial budgeting; identify workload and timetable problems that have surfaced in the existing congressional process; and identify alternative ways in which the Congress could implement a biennial budget. The results of our state work (GAO/PAD-83-14) were provided to you by letter dated December 23, 1982. We provided your staff with an analysis of the various biennial budgeting bills, briefed them from time-to-time on biennial budgeting issues, and also provided them with a larger, detailed draft version of this report. In this final report, we summarize the major issues.

GENERAL APPROACH

We studied the experiences of three states--Wisconsin, Ohio, and Florida--to learn how a biennial budget process operates. We chose these states using several criteria, including implementing a biennial budget in a variety of ways; debating in the last few years whether biennial budgeting is appropriate; sustaining a high level of competition for limited resources; and having different annual adjustment mechanisms, to name a few. These states illustrate some of the many ways a biennial budget can be implemented and enabled us to identify those issues raised by the use of a biennial budget. However, the three states do not exhaust the possible ways of managing a biennial budget. Different issues might have emerged had we looked at a different set of states. We concentrated on portions of the state budget processes that bear directly on the problems currently faced in the congressional budget process, such as timing, workload, and budget estimates. Knowledge of biennial budgeting in the state examples was drawn from interviews with state officials and document collection and analysis.

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We reviewed a number of existing studies and articles to identify workload and timing problems that have surfaced in the existing congressional budget process. We supplemented this secondary source information through interviews with congressional and executive branch officials and other individuals knowledgeable about the budget process and its problems. In addition, we consulted with the Congressional Budget Office (CBO) on the operations of the congressional budget process and CBO's role in it.

During the course of our study, we also reviewed several federal biennial budgeting proposals and analyzed the extent to which they address identified congressional timing and workload problems.

In the latter stages of this study, GAO began a broad review of the government's financial management systems. That work has influenced significantly our thinking on biennial budgeting.

STATE BIENNIAL BUDGETING

Budgeting at the state level is tailored to the unique needs and characteristics of the state. Thus state practices may not be transferable in total to the federal sector. At the same time, certain underlying principles in the budget processes of the states we visited do seem to be both relevant and adaptable to federal budgeting. The first of these is an effective control and adjustment mechanism. With the installation of a 2-year budget cycle, it is necessary to provide for making budget changes, especially during the off-budget year. At the state level, these changes, which can include moving funds between accounts, programs, or agencies, are made in various ways. The three states we visited each had a different way of making these adjustments. A second factor is the need to achieve early consensus on revenue estimates by the executive and legislative branches. This can allow the budget debate to focus on policy issues rather than technical estimating differences. Florida, for example, derives its revenue estimates through revenue estimation conferences, where representatives of the legislative and executive branch meet to agree on a single revenue estimate for the state.

Sentiment varied in the three states as to the relative advantages and disadvantages of biennial budgeting. The process received overwhelming support in Ohio, general satisfaction in Wisconsin, and mixed reviews in Florida. The people we interviewed in these states mentioned some problems, but they believe the benefits outweighed the problems. In these three states, the principal benefits of biennial budgeting appear to be the following:

--Biennial budgeting does not require the state government's (legislative and executive level) full-time attention for budget review every year. Therefore, more time is available for non-budget activities in both the legislature and the agencies.

--Biennial budgeting lends itself to a more planned and deliberate approach to developing the budget, including the budget preparation process, analysis of policy issues, and review of major budget proposals. It also provides time for longer range planning, if the state chooses to do so.

The most frequently cited disadvantages of biennial budgeting are

--the increased difficulty in estimating accurately revenues and expenditures in the second year and budgeting for "uncontrollable" items, such as changes in expenditures for entitlement programs; and

--the legislature's perceived loss of control over the executive and state agencies, since there are fewer opportunities to make program and budget decisions.

Budgeting trends

While looking at the biennial budgeting processes in the three states, we also examined budgeting trends in all 50 states. Since the beginning of this century, many states have changed the frequency of legislative sessions, their budget cycle, or both. Since 1940, a number of states have switched from biennial to annual budget cycles. Currently, 21 states have biennial budgets, compared to 44 in 1940.

We interviewed officials in the six states that have shifted to an annual cycle in the last 18 years. The ability to respond more rapidly to changing conditions appeared to be the principal reason for the shift. In a slight variation of this point, one official commented that the change to annual budgeting was the result of an increase in supplemental appropriations. In the second year of the biennium, supplemental appropriations were so numerous that off-year activities began to closely resemble those of the budget year.

The changes also occurred because of legislative reforms that began in the 1960s and continued into the 1970s. These caused state legislatures to reassert their role as equal partners with the executive branch in the management of state policies and programs. During the early 1970s, the state legislature became more active in the budget process. An increase in legislative committees and the growth and professionalization of legislative staff contributed to this. According to officials in two of the states contacted, these were major factors in their switch from biennial to annual budgeting.

BIENNIAL BUDGETING ISSUESTimetable and workload problems

The Congress has always budgeted annually. However, developing a budget used to be a much simpler and smaller task. Since the 1930s, the federal budget has steadily increased in size and complexity, thereby resulting in more time-consuming and complicated decisionmaking. Many critics of the current budget process argue that the congressional workload has increased dramatically over the years. To test the "increased workload" hypothesis, we took a quantitative measure of bills and meetings from the 80th Congress through the first session of the 97th Congress. These indicators of workload have been used by others and are essentially the only ones available. We were unable to conclude from our analysis that the workload has tangibly increased over the years.

Members' and staffs' perceptions of an increase in overall activity remain, however, and are at least partially confirmed by the fact that budget issues have come to occupy a significant portion of the time available for floor debate and action. Since a true measure of workload remains elusive, these perceptions are particularly important. Several bills have been introduced to shift the federal government to a biennial budget and workload is usually cited as one of the primary reasons for the proposed shift. The perceptions are that the current annual budget process is too time-consuming and cumbersome, has an unrealistic timetable, lacks the means to assure compliance, and crowds out time for oversight and other legislative activities. For example, despite the Congress' efforts to work with the process, only 1 of the 13 appropriation bills for fiscal year 1983 had been signed into law before the fiscal year began, and only 4 appropriation bills for fiscal year 1984 had been enacted prior to the beginning of that fiscal year.

Budget estimates

Another area of concern about the current budget process is that of budget estimates and their accuracy. Many of the people we spoke to both in and out of the Congress are disturbed by the numerous sets of budget estimates being debated, by the ambiguity surrounding their differences, and by the need for frequent revision. Such concern merits serious consideration since reliable revenue and expenditure estimates are critical to the success of any budget process. The longer the period these projections cover, the greater the possibility for deviation. Thus, while the estimating process is already a matter of concern, it becomes even more of an issue in the context of proposals for a biennial budget.

Revenue and expenditure estimating is based on the rather complex task of making economic forecasts. These forecasts are predictions of economic behavior and are inherently subject to

error and frequent revision. Three approaches have been proposed by a scholar and two members of the Congress to deal with widely divergent sets of economic assumptions, the inexactness of estimates, and the need for frequent revisions:

- agreement between the executive branch and the Congress on a common set of economic forecasts before budget deliberations begin;
- the establishment of a Board of Revenue Estimators to determine the revenue estimates for the budget resolutions for the next two fiscal years; and
- the use of ranges, rather than point estimates for outlays, revenues, and deficits or surpluses in the budget resolution.

These proposals should be considered in developing more effective estimating procedures for either an annual or biennial process.

The question remains whether a 2-year system would affect these budget estimating problems. There is no simple answer to that question. In some ways, estimating for a 2-year period may be a little easier. Errors in gauging a turning point (e.g., when a recovery will begin) may have a less dramatic effect on a 2-year estimate. On the other hand, a 2-year period would allow more time for errors to compound and accumulate. We have no real basis for judging which of these influences would be more significant over a long period of time.

BIENNIAL ALTERNATIVES

The final segment of our analysis for the biennial budgeting study involves the examination of various biennial alternatives. We have analyzed the four biennial budgeting bills introduced in the 98th Congress. While all stress the need for more time for oversight and budget actions, each proposal is unique.

H.R. 750 (Representative Panetta)

This bill would alter the present system in three respects. The budget resolution and the appropriations bills cover two fiscal year budget periods. It establishes a specific oversight period which precedes budget action, has fewer congressional budget steps than are in the current law, and these steps are spread over a full year, instead of 7 to 9 months, giving all relevant committees more time to act. It eliminates a budget step by requiring only one budget resolution and specifically limits the scope of reconciliation. The budget decisions of a new Congress and a new President are carried out in the next Congress and the last 2 years of a presidential term.

S. 20 (Senator Roth)

S. 20 would change the present process in five ways. It would start the fiscal period on January 1, in the middle of a Congress. The oversight period occurs in the second year of a Congress, following budget actions. The budget decisions of a new Congress and a new President begin implementation in the second year of a presidential term. The bill eliminates budget steps by requiring only one budget resolution and an omnibus appropriation bill, both covering a single 2-year period. The budget resolution can be amended only by a super (two-thirds) majority vote.

S. 922 (Senator Cochran)

This bill would alter the present system in one respect. It formalizes the recent practice by requiring one binding budget resolution, covering 2 years instead of 1, and would require a super (three-fifths) majority vote to amend it.

S. 12 (Senators Ford-Quayle)

S. 12 would make five changes to the present process. It would spread the deadlines for budget resolutions, authorizations, and appropriations over 2 years. An oversight period would be established to cover an entire Congress, with a report due to each House at the end of the biennium. The budget decisions of a new Congress and a new President are carried out in the next Congress and the last 2 years of a presidential term. It specifically limits the scope and timing of reconciliation. Budget resolutions and appropriations bills cover two fiscal year budget periods.

GAO Suggestions

If the Congress decides to switch to a biennial budget process, we suggest that it concentrate budget actions in the first year of each new Congress, conduct oversight in the second, and adopt a fiscal period beginning January 1 of even-numbered years (overlapping a Congress). This timetable is attractive because it

- places difficult budget votes in non-election years;
- allows adoption of the budget in the first year of new members of Congress;
- allows the budget to be adopted during the first year of a President's term every other biennium, providing the opportunity to swiftly implement a new President's program; and
- leaves the second session of a Congress relatively free for oversight.

BIENNIAL BUDGETING AND FINANCIAL MANAGEMENT SYSTEMS

A draft report resulting from our study was provided to the Congressional Budget Office and the Office of Management and Budget (OMB) in March of 1983 for their comments. Copies were also provided to your office at that time. The draft stated that biennial budgeting is worth further consideration, but even if accomplished, it is not a complete solution. The draft went on to state that better national decisionmaking and policymaking require great improvements in the overall financial management systems of the Federal Government. These improvements should include major strengthening of executive branch budget submission and related processes, as well as congressional processes. The draft report was generally supportive of the biennial budgeting concept.

CBO agreed that the Congress should seriously consider lengthening the time frame of the budget process, but had some reservations about the report itself. It questioned the alternatives we listed for dealing with estimates for the longer budget period. CBO suggested that a more extensive study of state experience would be appropriate before Congress reaches any decisions about biennial budgeting at the federal level. CBO also questioned whether increased attention to the budget is preventing the Congress from performing agency oversight, as we had contended. Finally, we had reported that many feel the March 15 deadline (when the preliminary dollar estimates must be forwarded to the budget committees for use in putting together the first budget resolution) does not give authorizing committees adequate time to review the President's budget and their own legislative agenda. It is not CBO's impression that the Congress believes this deadline creates a serious timing problem. OMB, on the other hand, while it is an acknowledged proponent of multiyear planning, felt that the nation's needs and prime economic indicators change too frequently to make it realistic to consider abandonment of the annual budget process now.

After preparing the initial draft report, we began a separate broad assessment of the government's financial management processes and systems. This effort grew out of a recognition that many of the government's financial management problems are interrelated. Some of the problems Congress encounters in its budget process, for example, are attributable to inadequacies in the executive branch systems which provide financial and operating information.

We have concluded from this work that the processes and systems that support policymaking and management are obsolete and inefficient. The difficulties experienced by the Congress in its budget process are the most visible sign of some basic, underlying problems in the federal budget process and in the entire federal financial management system. These systemic problems include the lack of good financial information and reporting on the costs and performance of government operations, organizations, projects, and programs. Our current financial management systems

are outmoded, and they leave much to be desired when it comes to the integrity, comparability, completeness, and timeliness of information on the operations, financial condition, and performance of the government. The lack of such information limits government decisionmaking at all levels, including the Congress. In addition, our current financial management system is costly, inefficient, and does not take full advantage of modern computer and telecommunications technology. Since these systems are the primary means of obtaining data for input to the congressional budget process, we do not believe the Congress can have confidence in the information upon which it is making funding decisions and carrying out program oversight.

We can no longer expect to manage government with systems, procedures, and concepts designed for an era when government was simpler and smaller. We believe it is time to begin building a modern financial management system of the federal government. This system should have the following key elements:

1-- Strengthened Accounting, Auditing and Reporting:

Effective financial management must start with complete, reliable, consistent and timely information. Government financial systems must be designed to produce that information. Routine and special reports must be timely, useful, and readily understandable, and the reliability of the information must be assured through effective auditing procedures.

2-- Improved Planning and Programming:

Many of the most pressing national issues cannot be adequately considered using a narrow, short-term focus. A modern financial management system should include a structured process for considering those issues, one which focuses attention on major issues, identifies alternative courses of action and analyzes their probable future consequences.

3-- Streamlined Budget Process:

The federal budget process must be made more manageable if it is to be effective. Reform is needed in both Congress and the executive branch. This effort should concentrate on eliminating unnecessary repetition, detail, and obstacles to action. The system and its operating procedures must be designed so that program managers, policy officials and Members of Congress can focus on the difficult budget choices that must be made. Biennial budgeting, at least in selected areas, may be a useful part of the effort to streamline the process, along with other adjustments. In streamlining the process, however, it is also important to assure that the budget itself is as comprehensive as possible.

4-- Systematic Measurement of Performance:

Effective management of resources requires examining the results of government activities as well as their costs. The financial management system must be designed to provide consistent data about both performance and costs as a basis for assessing the efficiency and efficacy of operations.

We expect to be issuing a report on these issues in the near future.

CONCLUSION

As we in GAO have thought about the problems facing the Congress in the budget process, we have become increasingly convinced that these are a reflection, at least in part, of a much larger set of problems affecting the financial management structure of the government as a whole.

We share the concerns that underly the several proposals to convert the federal government to a biennial budget process. We agree that the problems are serious and need to be solved, but, biennial budgeting, by itself, is not enough. At the same time, we believe that there are advantages to an annual process, if we can find other ways to make it more streamlined and supported by modern financial management systems.

These advantages relate primarily to the retention of short-run budgetary flexibility and annual oversight in programs and activities where those are appropriate. We are concerned that if the government switched to a biennial process, there would be a strong tendency to restore flexibility by making extensive adjustments in the second year of the biennium.

We need to develop systems and procedures that are both simpler and more effectively integrated. For example, we need to eliminate excessive detail and repetitious decisionmaking, not only for the Congress, but for the executive agencies as well. If we can develop appropriate systems and procedures, taking advantage of modern technology, we believe the workload associated with the annual budget process can be brought within manageable proportions. This would substantially reduce the need to shift to a biennial budget across the board. In addition, however, a redesigned system might well include, among other features, a multiyear funding cycle covering programs for which stability and predictability are particularly important.

However, if a shift to biennial budgeting were accomplished without the needed improvements in the rest of the financial management structure, we suspect the Congress would be disappointed in the results. Therefore, if the Congress still chooses to shift to biennial budgeting across the board, we suggest that some initial steps be taken to modernize the

underlying financial management systems, so that eventually the full objectives of strengthening the budget process can be realized.

Our position reflects a broad examination of federal financial management and consideration of the overall changes needed to develop sound, modern, and streamlined financial management to support federal policymaking and management. We would like to discuss these matters with you at your convenience.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

A handwritten signature in black ink that reads "Charles A. Bowsher". The signature is written in a cursive, slightly slanted style.

Comptroller General
of the United States